This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

The Audit Findings Report for the London Borough of Hammersmith and Fulham

Year ended 31 March 2024

Private and Confidential

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG
www.grantthornton.co.uk

London Borough of Hammersmith and Fulham

Town Hall, King Street
Hammersmith
London W6 9JU

October 2024

Dear Members of the Audit Committee

Audit Findings for the London Borough of Hammersmith and Fulham for the 31 March 2024

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2023.pdf (grantthornton.co.uk).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Paul Dossett

Partner
For Grant Thornton UK LLP

Contents

Your key Grant Thornton team members are:

Paul Dossett
Key Audit Partner
E Paul.Dossett@uk.gt.com

Nick Halliwell
Senior Manager
E Nick.J.Halliwell@uk.gt.com

Alisha Nor Ezannee
In Charge Accountant
E Alisha.B.Nor.Ezannee@uk.gt.com

Kit Marlar
Assistant Manager
E Kit.C.Marlar@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Hammersmith and Fulham Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2024 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work was completed remotely during July-September 2024. We are pleased to note we were able to conclude the audit fieldwork largely by the end of September. There does remain some aspects regarding valuations that required management to liaise with their valuer which has resulted in some additional work in October, however this has been limited to the valuations work and following the updates through the financial statements. We are pleased we have been able to bring this work forwards and thank the finance team for their support during the course of the audit. We note this reflects a return to the more typical timeline and we will work hard with management to ensure this continues in future years.

Our findings are summarised on pages 41 to 45. We have not identified adjustments to the financial statements that have impacted on the Council's General Fund position. We did identify a prior period adjustment which has a £25.4m impact on the 2021-22 and 2022-23 net asset position. In 2023-24 the impact is £13.5m. There were three further adjustments which relate to changes in property valuations and the Pension's which have a net impact of £6.9 million in increasing the net asset position of the Council.

Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out at Appendix B. Our follow up of recommendations from the prior year's audit are detailed at Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- Conclusion on final queries relating to the Council's Pension Fund and responses from the Pension Fund auditors.
- Receipt of management representation letter; and
- Review of the final set of financial statements with updated consistency checklists to check updates flow through the MIRS.

We have concluded that the other information to be published with the financial statements, including the Annual Governance Statement, is consistent with our knowledge of your organisation and with the financial statements we have audited. This is subject to the information being updated to ensure consistency with updates identified in the financial statements.

Our anticipated financial statements audit report opinion will be unmodified. Our work on the Council's value for money (VFM) arrangements is nearing completion. The outcome of our VFM work will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2024.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

Our work on the Council's value for money (VFM) arrangements will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). Updates to the Code now require us to have completed our Value for Money opinion and communicated any key recommendations prior to finalising the audit opinion.

Due to this we have ensured we focused on completing our review of the prior year key recommendation relating to Housing (HRA). We will ensure the remainder of the work is complete ahead oof the Audit committee meeting to enable us to finalise the audit following this meeting. We will then ensure per the requirements the Annual auditors report is shared with management within a month of signing the audit and then taken to the next available Audit Committee meeting.

We have completed our review of the two prior year key recommendations. From this review we are of the view they still apply to the 2023-24 year. We do note that the Council have made good progress since this was noted in the 2022-23 Annual Auditor's report. For details of the progress against this key recommendation please see the VFM section pages 27-29.

Although we acknowledge the progress made on this matter in the year in our view the key recommendations still apply in the year. This reflects the fact the Council are still under special measures with the Housing regulator at the date of writing this report. And it will be important to assess how the changes made are further embedded into the way the Council works in the 2024-25 year prior to us concluding are key recommendations raised in November 2023 have been fully addressed. But we do note the positive progress made to date.

Due to these Key recommendations still standing we are under the Code required to report a significant weakness in arrangements in relation to this matter in our audit opinion. Our findings are set out in the value for money arrangements section of this report (Section 3).

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code but cannot formally conclude the audit and issue the audit certificate for the year ended 31 March 2024 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have received the approved Pension Fund Annual report.

1. Headlines

Significant matters

Prior period adjustments (PPAs) relating to the Council's Property Plant and Equipment – 25.4 million In our review of the council's accounts, we identified there was a significant gain of (11.9m) on disposal of the Civic Campus land site. This related to a barter agreement to exchange the asset with West King Street Renewal LLP (WKSR). This resulted in us reconsidering the value of the underlying asset due to the asset having a previous value of nil due to being held as an Asset Under Construction.	The Council had in 2020 impaired the valuation of the land asset incorporated within WKSR to nil following the commencement of the regeneration project and clearance of the site. This was following the valuation exercise performed in year, on reflection the Council note this was in error and was due to communication issues regarding the valuation method. Following entering the regeneration project it was agreed as part of the scheme that the site would act as a barter in an exchange deal. This was reviewed for best consideration purposes by BNP Paribas at £25.4m and the agreement was that the land site would be exchanged for works being undertaken on the Glass Pod. WKSR elected to bring forward part of this transaction as was permitted in the agreement and in the year £11.9m of the Glass pod was exchanged for land of the same commensurate value as the land. In reviewing this transaction, we challenged the Council on the previous value of nil given this barter agreement was in place. Following a further review by the Council and discussion with their valuer it was determined the asset had not been appropriately valued or classified. It was determined that the asset should be valued as a Surplus Asset, given this agreement was in place. In terms of determining the value of the asset the valuer and Council noted the value determined in the exchange agreement of £25.4m represents the agreed value of the asset and best reflects the assets value. As part of the agreement if the Glass pods attached to the barter end up costing less to construct the Council will be refunded up to the £25.4m of the asset. Given this issue impacts the prior year and is material this requires a prior period adjustment to be posted. As per the IAS8 requirements as this impacts the Balance sheet a third Balance sheet is required to make this adjustment. The following adjustments are proposed in the 3 financial years: • 31st March 2022 the full £25.4m balance will be posted to Property Plant and equipment-Surplus assets, with the reserves position adjusted accordingly. Note this has no impact on the General Fund. Note this will create the requirement for a third balance sheet. • 31st March 2023 will reflect this position with no changes in the CIES. • 31st March 2024 £13.5m to be posted to PPE-Surplus assets. With gains on disposal removed from the statement of accounts which impacts both the CIES, MIRS and Cash flow statement. These adjustments have no impact on the General Fund reserves. We are satisfied these adjustments proposed fairly reflect the accounts. However, we do note that within the barter agreement there is potentially a non-financial asset within the contract. This is because if the building asset purchased by the Council costs more to build than the Council has set as the purchase price of £25m in the agreement there is a gain to the Council. Per our discussions with management and those involved in the scheme we are satisfied this would not be material. It is also noted this transaction will be concluded in the next financial year and therefore this uncertainty will only impact this year's financial statements. In our Action plan, we have proposed recommendations regarding the valuations process and its review. We note the need for specific attention to be given to unusual changes in asset valuations year on year and attention to the classification approach for assets, as this can significantly impact the valuation method of the asset.

1. Headlines

Significant matters	
IFRIC 14 Application to Council's LGPS Pension Liability In the previous years audit we requested the Council to review IFRIC 14 in relation to the LPFA asset scheme following this moving into a surplus position. However, during the course of the audit it was identified nationally that consideration should also be given to the standard when there is a net liability position as well as the standard requires preparers to consider the impact of for example secondary contributions over the actuarial horizon.	Historically, local authorities have reported significant net pension liabilities on their balance sheets, and therefore the impact of IFRIC 14 could reasonably be assumed to be minimal. However, recent market fluctuations have meant that, for some authorities, net pension liabilities have significantly reduced, and in some cases the balance reversed so there is a net pension asset. As a result, the consideration of IFRIC 14 has become much more important. An authority can recognise an IAS 19 pension asset on its balance sheet to the extent that associated future economic benefits will be available to it. This benefit would be in the form of a reduction in future employer pension contributions. The economic benefit available to an authority as a reduction in future contributions is any reduction in the minimum funding requirement arising from an early payment, and the estimated future service cost less the minimum funding requirement contributions for future service contributions, if no early payment had been made. If this is less than the net asset initially calculated, it acts as a ceiling on the asset value which can be recognised on the balance sheet. In some cases, the actuary may determine that, as well as contributions for future service costs, there is a requirement for the authority to make good an existing pension shortfall in respect of services already received. This may be reflected in the actuary's certificate as required secondary contributions. Where this is the case, consideration needs to be given as to whether these contributions will be available to the authority after they are paid into the plan. To the extent that they will not be available, the authority needs to recognise a liability as the obligation arises. This can have the effect of reducing a net pension asset or increasing a net pension liability. The potential impact of IFRIC 14 can be highly material to an authority's financial statements. Actuaries, generally, will not consider the impact of IFRIC 14 unless specifically requested to do so by the authority. Having raised this matter with the Council and the need to consider the matter with their actuary for the LGPS scheme the Council consulted with Hymans Robertson on the matter. Following their review, they noted the matter would not impact the prior year accounts but did result in a negative impact of £5.5m to the closing balance in 2023-24. Management have agreed to amend the accounts in relation to this given the size of the amendment. We have assessed the work performed by the actuary and performed calculation checks of the actuaries work with no issues identified.

1. Headlines

Significant matters	
Land measurement issue As part of our audit of the Other land and buildings balance, we test key assumptions in the valuation. For assets valued on the Depreciated replacement Cost model our testing of floor plans identified discrepancies. Due to this we asked the Council and valuation expert to review these differences.	As part of our assessment of the revaluation of Other Land and Buildings, we have identified discrepancies between the site areas provided by the client and those used in the valuer's calculation of the Depreciated Replacement Cost (DRC) Assets. Due to our testing being on only part of the population we have requested the valuer and Council to reassess the impact of this on the DRC population to gauge the risk of material misstatement in the 2023/24 Land and Building balance. Management has conducted a full assessment of the higher value assets (representing approximately 70% of the population). This assessment revealed a net understatement of £7 million and management have agreed to make this adjustment. This issue itself nets of against another asset's adjustment of £3.9 million where incorrect data was provided to the valuer following managements review. The net impact of this adjustment being £3.1 million. Additionally, management have undertaken an indicative review of the lower value assets (i.e. the residual 30% by value). This assessment broadly reflects the error rate established through the review of the higher value assets, representing a potential understatement of approximately £3.1 million. Management have agreed to include these items for revaluation as part of next year's revaluation exercise. We are finalising our review of this matter. We also expect to receive the updated valuation certificate following the completion of this work.
Yields applied to advertising hoardings (Investment Properties) As part of our testing of Investment properties we selected a number of advertising hoarding assets to test. These are an asset type with not a significant amount of market data available regarding sale prices. These assets have a value of £20.7m in the Councils accounts.	During our review of this asset, we noted that a higher yield had been applied to this asset than would otherwise have been expected. Additionally, this was significantly higher than that applied to the majority of the Council's Investment property portfolio. The impact of this is to depress the value of the asset. We therefore consulted on this matter with our valuation expert who noted differences in opinion regarding the following points: • They felt the yield being applied of 15% was too soft in particular for advertising hoardings in prime locations. • That the valuer should be using different yields for Prime or Subprime sites. The Council's valuation expert notes that there is not a large amount of comparable data regarding advertising hoarding sales leading to a potentially higher degree of subjectivity in this arena, but further to discussion, and on reassessment, they consider it appropriate to reduce the yield in this instance. We have received this update, and it has identified a £7.5 million increase in the Investment property valuation. We are finalising our review of this matter. We also expect to receive the updated valuation certificate following the completion of this work.
Classification error on Long term Investments in Associate and Joint Venture	An error in classification has been identified for a loan, which should have been categorized as a Long-term debtor instead of Investments in Associate & Joint Venture. The amount in question totals £22 million. This misclassification of the Loan to Education City has been rectified in the latest draft of the Statement of Accounts. This change has no bottom line impact and is a presentational adjustment to the Balance sheet. This is a technical classification adjustment identified from our audit work.

1. Headlines

National context – audit backlog

Government proposals around the backstop

On 30 July 2024, the Minister of State for Local Government and English Devolution, Jim McMahon, provided the following written statement to Parliament Written statements - Written questions, answers and statements - UK Parliament This confirm the government's intention to introduce a backstop date for English local authority audits up to 2022/23 of 13 December 2024. As a consequence of this, the authority's accounts for (years up to 2022/23) are expected to be/ have been backstopped and a disclaimer of opinion has been issued/ will be issued by 13 December 2024.

The government has set out its intention that from 2023/24, auditors should work with local authorities to begin the process of recovery. A backstop date for 2023/24 has been proposed of 28 February 2025, and a date for 2024/25 audits of 27 February 2026. Our intention is that over time we will re-build assurance in respect of prior years across all backstopped audits, taking account of guidance from the National Audit Office and the Financial Reporting Council.

We would like to express our gratitude to everyone at the Council for their support in working with us to successfully complete the 2023/24 audit in a timely manner, ahead of the backstop date. Thanks to the hard work and consistent effort from everyone, the financial accounts for three fiscal years, including 2023/24, has been signed of in the same calendar year and we are pleased that the backlog position has been recovered without the need to consider disclaimed positions as other Councils in the sector are having to. As a team we are also proud that we have managed to resolve a large number of our backlog audits ahead of these dates, as at May 2024 we had signed 65% of our 2022-23 audits, whereas the statistics for other firms nationally was 7%.

Updates regarding future backstop dates and plans in future years can be found in Appendix H.

National context – level of borrowing

All Councils continue to operate in an increasingly challenging financial context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums in excess of their revenue budgets to finance these investment schemes. Additionally, we have also seen some authorities lending money to their subsidiary companies, which may not be in a position to repay those loans.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

The London Borough of Hammersmith and Fulham Council has historically managed its finances prudently, with a focus on maintaining a sustainable level of borrowing. However, balancing the financial position year on year has become increasingly challenging. In 2023/24, the Council's financial performance remained strong, with effective management of its borrowing. The level of unsupported borrowing for the Council is comparatively lower when compared to other London boroughs, reflecting responsible financial management.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Financial Statement materiality for the Council audits has increased since our audit plan was reported in July 2024. The Council's materiality continued to use the same benchmark of 1.5% of gross expenditure and was increased to reflect higher gross expenditure in the draft financial statements.

Materiality for senior officers' remuneration and key management personnel disclosures has been adjusted from £100k due to increased stakeholder interest in these disclosures.

We set out in this table our determination of materiality for London Borough of Hammersmith and Fulham Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	13,000,000	This benchmark for materiality is approximately 1.5% of the Council's Gross Cost of Services Expenditure, taking into account the needs of financial statement users. The Authority's budget is expenditure-based, with the primary aim of providing services for the community, visitors, and businesses, and we have determined this as an appropriate benchmark for calculating materiality.
Performance materiality	9,100,000	Performance Materiality is based on a percentage (70%) of the overall materiality.
Trivial matters	650,000	This balance is set at approximately 5% of overall materiality.
Materiality for senior officers' remuneration and key management personnel disclosures	20,000	There is a high level of stakeholder interest in these disclosures

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
ISA (UK) 240 fraudulent revenue recognition (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	In the Audit Plan, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition especially when the Council's General Fund reserves are in a stronger position than most councils. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of Local Authorities, mean that all forms of fraud are seen as unacceptable. There have been no changes to our assessment as reported in the Audit Plan. To gain assurance over revenue, we: • Documented our understanding of the revenue business process. • Tested a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year. • Performed testing over post year-end receipts to assess completeness of revenue and receivables recognition. Therefore, at the planning stage we did not consider this to be a significant risk at the London Borough of Hammersmith and Fulham. No circumstances have subsequently arisen during the course of the audit process which would lead us to amend our initial assessment as reported in the Audit Plan.
Risk of fraud related to expenditure recognition under Practice Note 10 (rebutted) As reported in our Audit Plan, we also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We have considered the risk factors in Practice Note 10 as they apply to the Council expenditure streams.	We were satisfied that this does not present a significant risk of material misstatement in the 2023/24 accounts as: - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the prior year audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. Therefore, at the planning stage we did not consider this to be a significant risk at the London Borough of Hammersmith and Fulham. No circumstances have subsequently arisen during the course of the audit process which would lead us to amend our initial assessment as reported in the Audit Plan.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	There have been no changes to our assessment as reported in the Audit Plan. We undertook the following procedures: • Evaluated the design and implementation of management controls over journals • Analysed the journals listing and determined the criteria for selecting high risk unusual journals • Identified and tested journals we considered to have the greatest risk of material misstatement or from our data analytics Journals that were identified to be unusual made during the year and the accounts production stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence with a special focus on accounting provisions in the General Fund and Collection Fund and accounting between the General Fund and the Housing Revenue Account; and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. In previous audits, we have noted the absence of a two-stage authorization process for journal entries. Recommendations were provided in our Audit Findings Reports for the audits the past 3 audit reports and this point remains the case for the 2023/24 audit. Our audits have not identified any material misstatements or instances of management overriding controls in our journal entry testing. However, it's important to recognize that potential fraud or errors could exist due to us having to take a proportionate approach in our testing and not testing all Journals. To address this, we have maintained the control recommendation for improvement related to two-stage authorisation, see Follow up of prior year recommendations (Appendix C). In our testing procedures we have not identified any instances of management override of controls from the procedures performed.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Closing Valuation of land and buildings (inc. Council dwellings) The Council revalue its Land and Buildings, Council Dwellings, Surplus Assets and Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value (for Land and Buildings and Council Dwellings) or fair value (for Surplus Assets and Investment Properties) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.8 billion Land and Buildings – including Council Dwellings and Surplus Assets, £85.5m Investment Property) and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2024. This significant risk is particularly focused on the valuers' key assumptions and inputs to the valuations as these are the greatest sources of estimation sensitivity.	Audit procedures undertaken in response to the identified risk included: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation expert; • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code were met; • Engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpinned the valuation of Land and Buildings (including council dwellings); • Used our valuer to evaluate the appropriateness of obsolescence factors and rental yields, for the £85.5m investment Properties held in the balance sheet, used in asset valuation calculations where applicable; • Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements; • Assessed the value of a sample of assets in relation to market rates for comparable properties; and • Tested a sample of beacon properties in respect of Council Dwellings to consider whether their valuation assumptions were appropriate and whether they were truly representative of the other properties within that beacon group. During our testing of the valuation of Land and Buildings, we have identified the following misstatements, as outlined in detail in the significant matters under section 1 Highlights : • Prior year understatement of Property Plant and equipment-Surplus Assets of £25.4m- details noted on slide 6. • An understatement of Other land and buildings of £6.2m detailed on slide 7. As detailed on page 6, we are still undertaking our management reviews in this area and we have also included an audit recommendation for the issues identified above in Appendix B.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability – assumptions applied by the professional actuary in their calculation

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£33.2 million in the Authority's balance sheet at the 31 March 2024) and the sensitivity of the estimate to changes in key assumptions.

The Council's pension fund comprises of the Hammersmith and Fulham Pension Fund and the London Pension Fund Authority (LPFA) obligations, with a position as follows:

Pension Scheme	LBHF LGPS	LPFA LGPS
Gross assets	£1.252b	£31.2m
Gross liabilities	£1.285b	£53.8m
Asset ceiling applied	Nil	£22.5m
Net pension liability	£33.2m	£10k

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability.

We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we would reconsider this if it becomes apparent at the year-end that there significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.

Commentary

Audit procedures undertaken in response to the identified risk included:

- Updating our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- Assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- Assessing the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases;
- Gaining assurances over the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- Testing the consistency of the disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- Undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- Reviewing the actuaries calculation of the asset ceiling and ensuring that this has been estimated in accordance with the requirements of the accounting standard IFRIC14.
- Under the change award of the new Public Sector Auditor Appointments contract, London Pensions Fund Authority (LPFA) are now audited by Ernst & Young. We sent written instructions to EY to obtain assurances over IAS19 valuations, set out the procedures we require them to undertake on the LPFA Pension Fund and set out our materiality threshold.

We have not identified any material misstatements in response to this risk. However, we did require the Council to engage with their actuary regarding reviewing the impact of IFRIC 14 on the LGPS scheme. Following this review a £5.4m impact was noted which negatively impacts the net liability position.

We are awaiting receipt of requested confirmations from the London Pension Fund Authority auditor over the London Pensions Fund Authority IAS19 balance.

2. Financial Statements: Other risks

Risks identified in our Audit Plan	Commentary
Minimum Revenue Provision The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. MRP represents one of the few elements of capital financing in local authority financial statements which is a true charge to useable reserves, and therefore over time has the potential to have a significant impact on the Council's longer term financial sustainability. As a result of findings across the sector as a whole whereby MRP has been miscalculated or not calculated in accordance with the statutory guidance, we have identified this as a risk requiring specific audit attention.	Audit procedures undertaken in response to the identified risk included: • Understood and documented the Council's current policy for calculating the MRP charge for the year and evaluated whether this is in accordance with the statutory guidance; • Confirmed that the MRP policy has been appropriately understood and approved by Council's members; and • Substantively tested the inputs into the MRP calculation back to supporting evidence and the financial statements. • Evaluated key ratios in relation to borrowing, CFR and MRP and benchmark the Council's position against that of its closest peers, documenting and corroborating the reasons for any anomalies. • Formed a judgement that MRP provision made by the Council is prudent and in compliance with DLUHC/CIPFA requirements. Following consultation, the government have clarified and updated the regulations and the statutory guidance for minimum revenue provision. Although these take full effect from April 2025 , the consultation highlighted that the intention was not to change policy, but to clearly set out in legislation the practices that authorities should already be following. This guidance clarifies that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted from the calculation unless exempted by statute. We have not identified any issues arising from our work in MRP. The MRP disclosed in the financial statements has been calculated appropriately in line with statutory guidance.
Breach of the HRA ringfence The Housing Revenue Account (HRA) should be self-financing. The HRA is strictly ringfenced to ensure that expenditure on maintaining dwellings and managing tenancies is balanced by rents charged to tenants and that rents cannot be subsidised by council tax or vice versa. As a result of findings across the sector as a whole, whereby there were transactions which breached the HRA ringfence either intentionally or otherwise, and in the context of the severe financial pressure facing the Council's HRA given major cost pressures and a challenging reserves position, we have identified this as a risk requiring specific audit attention.	Audit procedures undertaken in response to the identified risk included: • Understood and documented the Specifically identified and tested any unusual journals which impact the HRA and General Fund in unexpected transactions; and • Tailored into our existing work programmes across expenditure, income and balance sheet substantive testing, additional procedures to confirm that the impact of the transaction on the General Fund or HRA is corroborated by the evidence and substance of the underlying transaction. We have not identified any issues arising from our work in the Housing Revenue Account ringfence.

2. Financial Statements: New issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation • Following consultation and agreement by Financial Reporting Advisory Board (FRAB), the Code will provide for authorities to opt to apply IFRS 16 in advance of the revised implementation date of 1 April 2024. In advance of this standard coming into effect, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases, along with the estimated impact of IFRS 16 on the accounts.	In note 40 to the financial statements, the Council has disclosed the title of standard, the date of implementation and the nature of the change in the accounting policy, The Council has estimated that the implementation of IFRS 16 is likely to have a material impact on the Council's balance sheet however the impact on the income and expenditure account is anticipated to be below materiality.	The Council has implemented processes to identify all of its arrangements (leases/contracts/other agreements) that contain the right of use an asset. The Council remain on track to account for these arrangements in line with the leasing standard. This will be incorporated within the 2024-25 financial statements.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Other Land and Building valuations – £332.5m Other land and buildings comprises £252.5m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£80,0m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end	The Council has engaged Wilks, Head and Eve to complete the valuation of properties as at 31 March 2024 on a five yearly cyclical basis. 94% of total assets were revalued during 2023/24. The total year end valuation of other land and buildings was £332.5m, a net decrease of £7m from 2022/23 (£339.4m). This net decrease arises from the valuation process in combination with additions and enhancements of property assets during the year. Management has considered the year-end value of non-valued properties, taking into account all known movements since the date of the last valuation. Additionally, an assessment of assets not formally revalued at 31 March 2024 has been completed by management, who have asserted that the estimate of their value remains materially correct. Furthermore, management has reviewed the asset portfolio to determine whether there have been any significant changes to the assets, and if so, they have requested specific revaluation.	• We have assessed management's expert, Wilks, Head and Eve, to be competent capable and objective. • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. • 94% of properties have been valued as at 31 March 2024. • We engaged our own valuation specialist, Lambert Smith Hampton, to provide a commentary on the instruction process for Wilks, Head and Eve, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • Valuation methodologies applied are consistent with those applied in the prior year. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements.	● (Grey) As documented on page 6, we have identified errors within the valuers calculations of DRC assets which has resulted in assets being undervalued by £6.2 million.

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £87.0m The total year end valuation of investment property was £87.0m, a net increase of £1.5m from 2022/23 (£85.5m).	The Council has engaged Wilks, Head and Eve to complete the valuation of properties as at 31 March 2024. All Investment Properties (garages, car parks and retail units predominantly) are required to be valued at fair value at the year end. The valuer has based the revaluation movements for the Council's investment portfolio on capitalising the rental income by an appropriate yield and any voids, which is referred to as the 'investment method'. The rental income was provided to the Valuer and the yields adopted were based on comparable and the valuer's opinion of value in relation to the variety of investments assets. Management challenges the valuers on their valuations if any movements appear unusual, as part of an analytical review exercise on the draft valuations. These will then either be corroborated by the valuer or amendments will be made in the final valuation, if deemed necessary by the valuer.	• We have assessed management's expert, Wilks, Head and Eve, to be competent capable and objective. • The valuer has correctly prepared the valuation using the fair value as at 31 March 2024. • All properties have been valued as at 31 March 2024. Additions in year of £0.1m are not subject to valuation. • We engaged our own valuation specialist, Lambert Smith Hampton, to provide a commentary on the instruction process for Wilks, Head and Eve, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. • Valuation methodologies applied are consistent with those applied in the prior year. • We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate.	● (Grey) As documented on page 6, the valuer has identified an adjustment following reviewing yields applied to advertising hoardings the impact to increase the value by £7.5 million.

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £1,358m The Council undertakes a Beacon based valuation approach as required by the Code. This produces an EUV valuation with a discount rate of 25% applied to the value to reflect the social housing discount factor.	The Council owns over 12,000 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks, Head and Eve to complete the valuation of these properties. The year end valuation of Council Housing was £1,358m, a net decrease of £102m from 2022/23 (£1,460m).	• We have assessed management's expert, Wilks, Head and Eve, to be competent, capable and objective • We have assessed the methods and assumptions used by the valuer in the estimate. • We have selected a sample of the beacons to test the appropriateness of the beacon within the archetype property class and then to test the revalued amount to comparable property sales/marketed properties to assess whether the valuation movement was reasonable. • Reviewed those beacons/archetype groups which were not revalued in the year to assess whether the properties were still held at an appropriate/materially correct valuation. • Challenged the valuer assumptions employed. • The valuer has correctly prepared the valuation using the stock valuation guidance issued by DLUHC and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • All properties have been valued as at 31 March 2023 No significant findings were identified from our audit of the accounting estimate relating to valuation of Council Housing.	● [Green]

Assessment

- ● [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
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- ● [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate

Net pension liability – £33.2m

The Council's total net pension liability at 31 March 2024 is £33.2m (PY £89.9m) comprising the Hammersmith and Fulham Pension Fund and the London Pension Fund Authority obligations.

Summary of management's approach

The Council uses Hymans Robertson LLP and Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. Our key focus is on the LPGS scheme which uses Hymans Robertson LLP due to the significant size of the associated assets and liabilities.

Audit Comments

- We have assessed the actuary, Barnett Waddingham and Hymans Robertson, to be competent, capable and objective.
- We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

Assumption	Barnett Waddingham Actuary Value	Hymans Robertson Actuary Value	PwC range	Assessment
Discount rate	4.85%	4.8%	4.85%	
Pension increase rate	2.95%	2.80	2.85% to 3%	
Salary growth	3.95%	3.80	0.5-2.5% above CPI	
Life expectancy – Males currently aged 45/65	20.2/21.0	21.6/22.6	PwC state the actuary approach gives a reasonable best estimate life expectancy(by use of SAPS or Club Vita table)	
Life expectancy – Females currently aged 45/65	23.4/25.9	24.3/25.6		

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2023/24 to the valuation method.
- The Council's pension fund position is as follows:

Pension Scheme	LBHF LGPS	LPFA LGPS
Gross assets	£1.285m	£31.2m
Gross liabilities	£1.252m	£53.8m
Asset ceiling applied	Nil	£22.5m
Net pension liability	£33.2m	£10k

- Our assessment on the asset ceiling review has identified an understatement of £5.5m on the Hammersmith and Fulham Pension Fund. No issues identified for LPFA Pension Fund.

Assessment

Following a review of IFRIC 14 it was identified the LGPS scheme liability was understated by £5.5 million.

2. Financial Statements: other judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £7.8m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £3.2m in 2023/24.	• We have assessed management's expert, Analyse Local, to be competent, capable and objective. • Analyse Local have used up to date data around outstanding appeals and potential information around unlodged appeals and historic success rates to form a reliable estimate of the impact on Rateable Values in the future, and timings based on historic observations. • The methodology used is consistent with comparable local authorities • The disclosure of the estimate in the financial statements was found to be adequate. We did identify upon review of the disclosure that the Council were not recording in the provisions note the value of the provision being written out in year. No other issues were identified in relation to this matter.	●

Assessment

- ● [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● {Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £3.6m The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.	MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. The year end MRP charge was £3.6m, a net increase of £1.3m from 2022/23. This represents a 0.6% charge against the CFR.	• The MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance • The Council's policy on MRP in relation to borrowing taken out for the acquisition of General Fund assets complies with statutory guidance • The Council's policy on MRP was discussed and agreed with those charged with governance and approved by full council as part of the Treasury Management Strategy Statement in February 2023. • There have been no changes to the Council's MRP policy since 2022/23 • The level of increase in the MRP charge is reasonable in the context of additional borrowing incurred during the year, did not identify any significant findings or concerns. • The Council has considerably lower General Fund borrowing than many comparable sized councils and its MRP reflects that context.	● (Green) Our benchmarking exercise has identified that the Minimum Revenue provision charge of £3.6m which is 1.34% of the General Fund CFR is quite low compared to other Councils. We understand this is in part caused by a large amount of this CFR relating to Assets Under construction. If CFR is removed for assets not yet in use the CFR charged on the General Fund is 3.12%. No other matters have been noted from our work on this area.

Assessment

- ● [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. For further detail of the IT audit scope and findings please see separate 'IT Audit Findings' report.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
SAP Covering general ledger, accounts payable, accounts receivable and payroll	ITGC assessment (design and implementation effectiveness only) ISAE3402 Report Review	●	●	●	●	Management override of controls – no issues arising

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, on the finalisation of the audit and the issue of our audit opinions on the financial statements including specific representations in respect of the Authority's assessment of whether the national concerns around RAAC are material to the Local Authority, the impact to the prior period adjustment and the potential liabilities associated with the equal pay tribunal that would impact the Council.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking and investment counterparties. This permission was granted, and the requests were sent. All these requests were returned with positive confirmation. We wrote to those solicitors who worked with the Council during the year, to confirm the completeness of provisions and contingent liabilities. All responses requested have been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations	All information and explanations requested from management were provided, with the exception of those relating to the outstanding matters detailed on page 4. The financial statements were published and a full suite of supporting working papers was provided to the audit team prior to the commencement of the audit. The quality of working papers provided by the finance team to the audit team remain of a good standard.

2. Financial Statements: other communication requirements

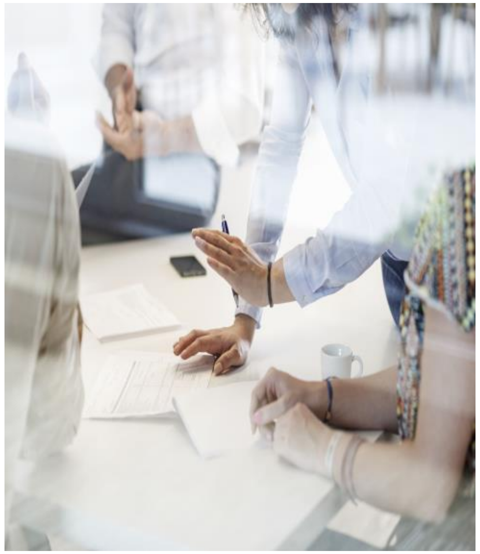
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We note management will need to ensure updates to the financial statements are reflected in the final version of this report.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weaknesses. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2023/24 audit of London Borough of Hammersmith and Fulham Council in the audit report this will be done once we receive the final Pension fund Annual report and are able to release are consistency statement.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2023/24

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM: our procedures and conclusions

Our work on the Council's value for money (VFM) arrangements will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). Updates to the Code now require us to have completed our Value for Money opinion and communicated any key recommendations prior to finalising the audit opinion.

Due to this we have ensured we focused on completing our review of the prior year key recommendation relating to Housing. We will ensure the remainder of the work is complete ahead oof the Audit committee meeting to enable us to finalise the audit following this meeting. We will then ensure per the requirements the Annual auditors report is shared with management within a month of signing the audit and then taken to the next available Audit Committee meeting.

We have completed our review of the two prior year key recommendations. From this review we are of the view they still apply to the 2023-24 year. We do note that the Council have made good progress since this was noted in the 2022-23 Annual Auditor's report.

The Council have taken significant steps to better services and respond to issues highlighted by both residents and the Housing regulator. The Chief Executive leads a regular task group, comprising representatives from various Council Departments, to supervise the improvement plan. During the 2023/24 period, the Council underwent an investigation by the Housing Ombudsman, which identified areas needing improvement. They have accepted the Ombudsman's findings and recommendations, showcasing their commitment to ongoing enhancement. Their proactive efforts are already showing positive outcomes, and they are dedicated to fully implementing the Ombudsman's recommendations.

In preparation for the Social Housing (Regulation) Act 2023, the Council are actively updating their policies and procedures to meet the new national consumer standards. This proactive effort not only ensures compliance with regulatory mandates but also aims to improve the quality of services provided to residents. Additionally, external auditors Pennington Choice have granted H&F Housing Services "reasonable assurance" in the key compliance areas of Gas, Asbestos, Fire, Electrical, Water Hygiene, and Lifts, which are components of the consumer standards. In March 2024, the Cabinet decided to change the contract for responsive repairs. A new pilot at White City Estate aims to better meet residents' needs by directly managing repairs. 'Estate Action Days' helps the Council engage with residents, and the new Directors' Report for the 'Housing Residents Forum' enhances communication. The Asset Management team has completed over 12,000 stock condition surveys to identify necessary upgrades and plan future capital works for H&F residents.

The housing service has improved in handling complaints, achieving 98% and 99% response rates for Stage 1 and Stage 2 complaints. Despite this, complaints remain high. To tackle this, the Council have set up a 'Complaints Improvement Board' to reduce complaints through strategic actions. Additionally, the Repairs contact centre has boosted its service by raising call answer rates to 97%, cutting wait times to 1 minute, and improving customer experience with expert engagement.

Although we acknowledge the progress made on this matter in the year in our view the key recommendations still apply in the year. This reflects the fact the Council are still under special measures with the Housing regulator at the date of writing this report. And it will be important to assess how the changes made are further embedded into the way the Council works in the 2024-25 year prior to us concluding are key recommendations raised in November 2023 have been fully addressed. But we do acknowledge significant attention, and effort has been made in relation to this matter.

The two key recommendations from the prior year are noted on the next two pages of this report. Note they remain the same as they were in the 2022-23 year.

3. VFM: Key Recommendation

	Recommendation	Type of recommendation *	Progress to date	Addressed?	Further action?
1	<u>Housing Revenue Account:</u> a. We recommend that the Council takes urgent steps to return the HRA to making operating surpluses sufficient to cover existing borrowing requirements and to start building up HRA general reserve balances. b. We recommend that the Council sets a target level of minimum HRA general reserve balances, expressed as a number of month's HRA expenditure and aims to meet this target in a specified number of years.	Key recommendation (Financial sustainability) Raised November 2023	a. Following on from the steps taken during 2022/23, the base deficit of £1.4m from 2023/24 has been wholly eliminated for 2024/25. A rent increase of 7.7% from 1 April 2024 (in line with September 2023 CPI plus 1%) together with the discontinuation of a temporary provision from reserves made during 2023/24, was necessary to protect the long term resilience of the HRA. The balanced budget set for 2024/25 is providing a strong foundation from which to make contributions to the HRA General Reserve in the coming years as the financial operating environment allows. b. The key strategic housing financial objective is to maintain the long-term financial resilience of the HRA and the 10-year Business Plan aims to maintain general balances equivalent to 5% of annual spend. The initial target minimum balance of £5m was met and exceeded during 2023/24 with a balance of £5.4m by 31 March 2024 in the HRA General Reserve (with another £6.2m in earmarked reserves). A 5% target for the HRA General Reserve is equivalent to £5.3m based on the 24/25 gross expenditure budget for the HRA of £106.7m. This is equivalent to 0.6 months of gross expenditure. The Council suggests that this could be used as the minimum requirement for the HRA General Reserve balance going forward with a target to achieve 1 month (currently £8.9m) within the next four years.	No	There has been significant improvement over the last six months however, we would like to see the new processes embed in 2024/25. We will revisit these recommendations as part of the 2024/25 VfM work.

3. VFM: Key Recommendation

	Recommendation	Type of recommendation *	Progress to date	Addressed?	Further action?
1	Housing Revenue Account: c. Within the constraints of the maximum rent increases allowed by the Regulator of Social Housing for social rents, HRA income should cover cost increases as far as possible, and this should be reflected in non-regulatory fee increases. d. We recommend that this financial model is used to demonstrate plans for returning the HRA to a position of financial sustainability and to demonstrate how both legally required works and new build aspirations might be funded and paid for. We would expect the financial business plan to allow reporting of various scenarios and for projections to be supported by extensive sensitivity analysis and stress testing. e. We recommend that a comprehensive exercise is undertaken to improve the quality of stock condition survey data. If all team members visiting homes are involved in validating existing records and updating stock condition data, this will give rise to a sense of ownership and increase confidence in the stock condition survey data amongst team members. This needs to be supported by appropriate technology.	Key recommendation (Financial sustainability) Raised November 2023	c. The Council has optimised the position in terms of income generation for tenant service charges (full cost recovery) and for Council homes rental income (with use of the 5% rent flexibility for relets). A review of other non-regulatory fees (including commercial income, garage rents, advertising hoardings, management fees) will be undertaken to ensure that income from all housing assets is optimised for the HRA. d. The current 10-year financial business plan is being revised as part of the annual budget setting process and this will take into account the Council's latest plans to deliver both legally required works and affordable housing as well as demonstrate plans for a financially resilient, sustainable HRA. The report presented for Cabinet approval in February 2025 will include the results and implications of analysis and stress testing of key sensitivities. e. The new stock condition surveys are almost complete and work has already begun to analyse the findings. This information will be used to develop the next Asset Management Strategy (2025-2030) which is expected to be completed in the new year. This will then enable a revised 5 year capital programme to be devised and this is expected to be finalised in the autumn of 2025.	No	There has been significant improvement over the last six months however, we would like to see the new processes embed in 2024/25. We will revisit these recommendations as part of the 2024/25 VfM work.

3. VFM: Key Recommendation

Recommendation	Type of recommendation *	Progress to date	Addressed?	Further action?
Service Performance in Housing: The Council should continue on its improvement journey with the operational performance of its housing service to ensure it is meeting a minimum core service standard.	Key recommendation (Financial sustainability) Raised November 2023 Key recommendation (Improving economy, efficiency and effectiveness)	The governance arrangements established in 2023/24 have been continued and enhanced in ensuring delivery of the improvement journey for both operational and financial performance. Voids performance is reported on regularly at Service Improvement Board and the average level of income loss from voids has improved markedly in recent months with the average number of void properties reducing from an average in 23/24 of 320 to an average for the 24/25 financial year to date of 250.	No	There has been significant improvement over the last six months however, we would like to see the new processes embed in 2024/25. We will revisit these recommendations as part of the 2024/25 VfM work.

*Explanations of the different types of recommendations which can be made are summarised in Appendix B.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff that would exceed the threshold set in the Ethical Standard.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

4. Independence considerations

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were identified as being provided for the 2023/24 financial year. We have set these out below, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	10,000	Self-Interest (because this is a recurring fee) Self-Review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £430,131 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with management however we will not be performing any management functions as a result of this work. We are satisfied there is sufficient safeguards in place to mitigate this threats.
Certification of Teachers Pension Return	12,500	Self-Interest (because this is a recurring fee) Self-Review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £430,131 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with management however we will not be performing any management functions as a result of this work. We are satisfied there is sufficient safeguards in place to mitigate this threats.
Certification of Housing Benefit subsidy claim	34,250	Self-Interest (because this is a recurring fee) Self-Review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £34,250 in comparison to the total fee for the audit of £430,131 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with management however we will not be performing any management functions as a result of this work. We are satisfied there is sufficient safeguards in place to mitigate this threats.

5. Independence considerations

Service	Fees £	Threats identified	Safeguards
Non-Audit related			
CFO Insights Subscription	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £430,131 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

None of the services provided are subject to contingent fees.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2024/25 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Controls	Issue and risk	Recommendations
● Medium	**Floor Plans on the Assets** Our testing has identified a few discrepancies between the site areas provided by the client and those used in the valuer's calculation of the Depreciated Replacement Cost (DRC) Assets. The Council has confirmed that the site areas (predominantly in respect of school and education assets) relied on legacy data which could, over time, become outdated, impacting on the computation of DRC assets valuation. This resulted in additional work by the valuer and audit team and an adjustment to the valuation of £6.2 million.	Management should perform a regular review of the site areas to ensure that they are still appropriate. **Management response** Agreed – this will now be undertaken centrally within the corporate estates function.
● Medium	**Valuation of Advertising Hoardings** During the year, we identified that the Council's experts have applied a single yield to all advertising hoardings with no allowance for Prime and Subprime. We note that the Council's valuer noted that due to the nature of the asset there was very low levels of comparable sales data for them. This creates a risk that the valuation of these assets is not accurate.	Management should engage with their expert to ensure there is a comparable evidence to support the Valuer's derivation of Yields for advertising hoardings and ensuring that allowances are applied for Prime vs Subprime assets, instead of applying single yields to entire asset classes. We note updates have been made to the valuation during the course of the audit. But we recommend the Council engage with their valuer to obtain more comparable data regarding advertising hoarding valuations, so that the valuation has a greater level of reliability. **Management response** Agreed.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of London Borough of Hammersmith and Fulham Council's 2022/23 financial statements, which resulted in 8 recommendations being reported in our 2022/23 Audit Findings report. We have followed up on the implementation of our recommendations and note 4 are still to be completed.

Assessment	Controls	Issue and risk previously communicated	Update on actions taken to address the issue
✓	● Medium	**Bank Reconciliation** The following findings were identified from our review of bank reconciliations to gain assurance over cash and cash equivalents: • We identified for some school bank reconciliations the unreconciled figures incorrectly included April transactions. • We found that the reconciliation provided did not reconcile to the closing Trial Balance. We were able to gain sufficient assurance that there was no significant issue which would lead to misstatement of the cash and bank balance in the general ledger and account.	Following our review, we are satisfied this issue has been addressed.
✓	● Medium	**Missing Bank Account within Cash and Cash Equivalent Balance** Upon reviewing the completeness of the bank account, it was noted that 1 bank account amounting to £12k was not included in the Council's bank balance as at year end. Upon discussion with management with regards to the business process in ensuring the completeness of the bank accounts of the Council, it was noted that no process is completed to ensure the completeness of the bank accounts held by the Council. The account was used for funeral payments and emergency funds for residents referred to the Client Affairs (Social Care) service, and deposit money found from property searches and should have been included in the Council's cash balance.	The Council has now implemented an annual review of the bank accounts to ensure the completeness of the bank accounts of the Council, as such we have not noted any missing bank account within Cash and Cash Equivalent balance.
x	● Medium	**Housing Benefit Expenditure Reconciliation Issues** Whilst performing reconciliation of the year end Housing Benefit expenditure from the HB system to GL, there has been a variance of £2,241,482 noted. As discussed with the Council, the variance is due to the timing difference as the data interfaced through 2 systems (Academy to NEC and NEC to SAP) which will contra out the following week as and when the specific cycle of interfaces complete the full interface circle. This transaction creates uncertainty on the completeness and may lead to potential misstatement of the Housing Benefit expenditure.	This issue was raised in March 2023 and therefore has not been addressed in year. **Management response:** The review of the Housing Benefit reconciliation is being undertaken and is due to complete in 2024/25.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

C. Follow up of prior year recommendations

Assessment	Controls	Issue and risk previously communicated	Update on actions taken to address the issue
Adjusted rating from medium to low due to mitigating controls and ongoing work on this area.	● Low	Journal entries control environment We identified during our testing of journal entries that there is no two-stage authorisation process for journal entry postings in place. We have not identified from our testing of journal entries any material misstatements or instances of management override of controls. However, we do not test every journal and there may be undetected fraud or error. In addition to a notification via email, users are alerted via a Teams notification, informing them of the need to approve a journal. An automated two stage approach within the system should continue to be reviewed in partnership with our finance system provider.	This issue has not been resolved for the 2023-24 financial period. We have upheld this recommendation as a best practice IT control to demonstrate the segregation of duties. We recommend implementing an automated two-stage approach within the system to mitigate the risk of journals being posted without approval. We do note management have mitigating controls in place and all Journals tested followed this therefore we have downgraded the rating of this recommendation to low and a best practise point. Management response: The journal process will continue to be reviewed, including enhancements to the existing off-line approval process.
✓	● Medium	Accurate recording of grants and contributions received in advance During our sample testing of long-term grants and contributions received in advance in 2020/21, we identified two items which had been classified as developer contributions but were in fact other grants received in advance. Whilst there is no impact on the balance sheet as at 31 March 2021, as both types of receipt comprise part of the same line item, the permitted usage of grants and contributions under statute can vary and as such there is a risk that budget-setting may be impacted by inaccurate recording.	We have reviewed the grants and contributions received in advance and found no misclassifications in the accounts as of 31 March 2024. However, management should continue to review the Grant Register to minimize the risk of misclassifying grants.

Assessment

- ✓ Action completed
- X Not yet addressed

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

C. Follow up of prior year recommendations

Assessment	Controls	Issue and risk previously communicated	Update on actions taken to address the issue
Adjusted rating from medium to low due to mitigating controls and ongoing work on this area.	● Low	**Legacy balances brought forward in debtors and creditors listings provided to audit** As part of the audit approach, we test the existence and accuracy of creditor and debtor balances recorded in the balance sheet and as such requested a listing from management, as part of the initial working paper request list for the audit, of outstanding amounts at the balance sheet date. The Council's accounting system contains a high volume of legacy balances brought forward from the previous accounting system which have not subsequently been written down effectively as amounts have been settled. This issue led to significant challenges in undertaking audit procedures in these areas and presents a risk that management will be unable to effectively analyse their outstanding creditor and debtor balances for financial management purposes.	The first phase of the housekeeping exercise has been undertaken; this will now become a regular process as part of quarterly and year-end closing exercises. We identified some issues in our debtors testing which indicated that there are still some issues with legacy debtor balances which are not likely to be recoverable (including in collection fund debtors). We were satisfied from our testing of the expected credit loss/provision against debtors that this would not lead to any significant misstatement of the net debtor balance, but our view is that older unrecoverable gross debtors should be written out of the debtor ledger through regular housekeeping review. Given the housekeeping exercise has covered the key aspect of the recommendation we have downgraded this rating to a Best practise point going forwards. **Management response:** Housekeeping work has been regularized and is now ongoing.
✓	● Medium	**Employee leaver forms** In our sample testing of employee leaver forms which was undertaken to gain an expectation for payroll expenditure recorded for the 2022/23, we identified a number of instances where overpayments of salaries had occurred due to no or late notification of resignation, either from the employee themselves or from their hiring manager. Whilst we are satisfied that this has not given rise to a material error in the 2022/23 financial statements, there is a risk that without sufficient monitoring of controls, more extensive overpayments could occur which are difficult for the Council to subsequently recover.	During our employee benefit testing, we did not identify any issues with the employee leaver form. However, management should continue to ensure that the processes and controls around employee leavers are consistently applied.

Assessment

- ✓ Action completed
- X Not yet addressed

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

D. Audit Adjustments – adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2024.

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Impact on total net assets £m	Impact on general fund £m
Loan has been wrongly classified under the Investments in Associate & Joint Venture instead of Long-Term Debtors	Nil	22.1 Long-term debtors (22.1) Investments in Associate & Joint Venture	Nil	Nil
The net of undervaluation of the land asset in the prior year	Disposal write out 11.9 Revaluation Gain (25.4)	(25.4) Property, plant and equipment (11.9) Sale of disposal	13.5	Nil
Advertising Hoarding revaluation	(7.5)	7.5	7.5	Nil
Other land and building (DRC asset) floor plan revaluation	(3.9)	3.9	3.9	Nil
Adjustment to net liability due to IFRIC 14 application	5.5 Pension remeasurement	(5.5) Pension Liability	(5.5)	Nil
Overall impact	**19.4**	**19.4**	**19.4**	**Nil**

D. Audit Adjustments - prior year unadjusted misstatements

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2022/23 financial statements

Detail	Comprehensive Income and Expenditure Statement £000	Balance Sheet £000	Impact on general fund £000	Reason for not adjusting
Non-Domestic Rates Appeals Provision The Non-Domestic Rates Appeals have subsequently been settled at an amount £970k less than provided for.	(970) NDR provision expenditure	970 NDR appeals provision	(970)	This is an immaterial change to the NDR Appeals provision, adjusting the accounts would not materially change the financial position
Unrecorded liabilities Audit testing identified a number of 2022/23 payments made through the bank account that had not been accrued for in the 2022/23 financial statements. The potential error has been extrapolated.	1,262 Other expenditure	(1,262) Short-term creditors	1,262	This was an immaterial projected misstatement therefore not appropriate for management to adjust the financial statements for but gives assurance that those accounts areas are not materially misstated based on the errors found in our testing.
Other expenditure Audit testing identified a number of 2021/22 items of expenditure that should have been accrued for, but were not, hence were recorded in 2022/23, overstating the 2022/23 expenditure. The potential error has been extrapolated.	(959) Other expenditure	959 Reserves	(959)	This was an immaterial projected misstatement therefore not appropriate for management to adjust the financial statements for but gives assurance that those accounts areas are not materially misstated based on the errors found in our testing.
Overall impact	**(667)**	**667**	(667)	

D. Audit Adjustments – misclassification and disclosure

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Area of the accounts	Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Cash flow statement	We noted that the additions figure as per the cashflow for Investing activities as provided is 149,472k. However, on the FS it is 134,199k. The difference between the 149,472k and 134,199k (which is the total in the capital financing note) is explained by two asset acquisitions which are essentially non-cash driven – these are the Civic Campus Glass Pod (£11.855m) and the net recognition and derecognition of finance leases (£3.419m) pursuant to waste and recycling vehicles.	The disclosure note should be amended.	✓
Note 9 – Property, Plant and Equipment	A few errors identified in Note 9 : - Prior year (2022/23) figures in the table were not updated from previous PY (2021/22) figures for Infrastructure Assets - The carrying value under cost model was not updated to reflect the financial year-end of March 31, 2024, for Council dwellings, other land and buildings, and surplus assets. - Misclassification of impairment of surplus assets amounting to £15.3m that is relating to impairment of other land and building.	The disclosure note should be amended.	✓
Note 14 – Leases	Council as Lessee have excluded both Private Sector Lease properties and Ricoh leases affecting the future minimum lease payments and expenditure charged to the service revenue accounts during the year.	The disclosure note should be amended.	✓
Note 16 - Debtors	Loan has been wrongly classified under the Investments in Associate & Joint Venture instead of Long-Term Debtors	The disclosure note should be amended.	✓
Note 21 - Financial instruments	Various errors identified in Note 21: - Client should remove disclosure of assets at fair value in the FI note that are not measured at FV where they do not have a fair value and to disclose the reason why no fair value has been provided - Prior period adjustment incorrectly proposed. Improvements to the note suggested showing the balance separately and in narrative regarding JV. The long-term investment for the loan incorrectly held in long term investments needs adjusting for consistency with other adjustments logged - Investments in Associates & Joint Ventures have been incorrectly included in the financial instruments, as they are not held at amortized cost but rather at cost. - Investments, PFI & Finance Lease liabilities and Local Authority bonds has been incorrectly included in the table as there is no fair value for these items. A disclosure should be added underneath the table stating these categories is not considered to be a material difference between cost and fair value.	The disclosure note should be amended.	✓

D. Audit Adjustments – misclassification and disclosure (continued)

Area of the accounts	Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Note 17 - Cash and cash equivalents	Our review of the reconciling items attributed to the overdraft revealed balances that pertain to short-term deposits amounting to £2m. The current presentation includes these short-term deposit balances within the "Bank Overdraft" line, rather than netting them off against the short-term deposits balance. This method results in a misrepresentation of both the short-term deposits and the bank overdraft.	The disclosure note should be amended.	X
Note 20 – Provision	Provision used during the year should be amended from Nil to £2.8m to reflect the Council's provision settled during FY23/24	The disclosure note should be amended.	✓
Note 28 – External Audit Costs	Misstatement in grant fees of £12k. Grant fees was shown as £70k however as per Audit Plan, records fee is £58k.	The disclosure note should be amended.	✓
Note 30 - Grant Income	Classification error on S31 Grant - Business Rates Retention Scheme Relief and NDR Tariff/Top-up adjustment: - S31 Grant - Business Rates Retention Scheme Relief from £19,506k to £21,894k - NDR Tariff/Top-up adjustment from £2,388k to -	The disclosure note should be amended.	✓
Collection Fund Statement	Various errors identified in the collection fund statement: - Minor rounding error on the Total Band D equivalents 2023/24. This will need to be corrected from 17,119 to 17,118 and 5,563 to 5,564 to agree to Council Tax Base and Collection Rate 2023/24 and Delegation of the Business Rate Estimate that has been presented. - Transpose error in the Business rates disclosed under the 3. Collection Fund Balance. The rates has been disclosed in the wrong line within the authorities. - Error noted in 2. National Non-Domestic Rates (NNDR) on the standard multiplier used for 23/24. To amend from 54.6p to 51.2p to agree to business rates on the Council's website. - Successful appeals has been netted off in the Business Rates (BR) income during the year in and has also been included within the Business Rates expenditure during the year. Hence, no impact to the surplus/deficit of business rates 23/24. An additional narrative should be included in the Collection Fund statement disclosure to reflect the appeals.	The disclosure note should be amended.	✓

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services:

Audit fees	**Proposed fee**	**Final fee**
Scale fee	£430,131	£430,131
Additional work on Prior period adjustment *(detailed on page 6)*	NA	£3,000
Additional work on valuation issues *(detailed on page 8 yields and floorspace)*	NA	£2,750
Additional work on IFRIC 14 *(detailed on page 7)*	NA	£3,270
Use of expert (for valuation of Land and Building, Council dwellings and Investment properties) This is charged to us by Lambert Smith our valuation expert and per the PSAA contract recharged at cost.	TBC-charged at cost we are billed by our expert Lambert Smith	£8,500
ISA 315 (this value has been specified to auditors by the PSAA since the audit plan went out.)	£12,550	£15,690
Total audit fees (excluding VAT)	TBC	**£463,341**

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee
Certification of Housing capital receipts grant	£10,000
Certification of Teachers Pension Return	£12,500
Certification of Housing Benefit subsidy claim (this excludes the impact of further work required under the DWP instructions for additional testing when errors are found)	£34,250
CFO Insights Subscription	£12,500
Total non-audit fees (excluding VAT)	**£69,250**

Total audit and non-audit fee	
(Audit Fee) £463,341	(Non Audit Fee) £69,250

The fees reconcile to the financial statements.

- fees per financial statements - £430,000, this is the scale fee.
- Use of external valuation expert -£8,500.
- IAS 240/315 - £15,690 (this fee has been confirmed with PSAA following the settlement of the scale fee)
- Fee overruns for additional work on valuations, IFRIC 14 and PPA -£9,020
- Total fees - £463,341

None of the above services were provided on a contingent fee.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

F. Audit opinion

We anticipate that we will provide the Authority with an unmodified audit report.

G- Audit Developments -Ending the local audit backlog

A plan for restoring timely assurance to the Local Government audit system was announced by the Minister of State for Local Government and English Devolution on 30th July 2024.

When parliamentary time permits, secondary legislation is going to be used to amend the Accounts and Audit Regulations (2015) and to introduce five new backstop dates:

1. Financial years up-to-and-including 2022/23: 13 December 2024;
2. Financial year 2023/24: 28 February 2025;
3. Financial year 2024/25: 27 February 2026;
4. Financial year 2025/26: 31 January 2027;
5. Financial year 2026/27: 30 November 2027; and
6. Financial year 2027/28: 30 November 2028.

Paul Dossett, Grant Thornton Partner and Head of Local Government, has had an article published in The MJ, where he reviews the reasons for the delays in audited accounts and considers what is required for a long-term solution:
https://www.themj.co.uk/beyond-the-local-audit-backstop

Key messages from the Minister are that:

For financial years up to and including 2022/23, if financial audits are not complete by 13 December 2024, disclaimed or modified opinions will be required. The Minister recognises that in most cases these may remain in place for up to two years.

The Minister's statement is, however, "crystal clear" that where there are modified opinions for financial accounts, auditors' other statutory duties – including to report on Value for Money (VfM) arrangements, to make statutory recommendations, and to issue Public Interest Reports, will still be a high priority.

There will be some limited grounds for exemption to meeting the audited accounts backstop dates: Where auditors are considering a material objection; where recourse to the court could be required; or from 2023/24, where the auditor is not yet satisfied with the body's Value for Money arrangements. Nevertheless, Councils need to be aware that the Government intends to publish a list of bodies and auditors that do not have an exemption and yet still do not meet the proposed new dates.

To help Councils comply with these arrangements, for financial years 2024/25 to 2027/28, the Minister states that the deadline for filing Category 1 'draft' (unaudited) accounts will be extended from 31 May to 30 June (allowing higher quality draft accounts); and there will be no routine inspections of local audits (by the Financial Reporting Council or by the Institute of Chartered Accountants in England and Wales) for financial years up to and including 2022/23, unless there is a clear case in the public interest to do so.

Once implemented, the hope is that the new arrangements will help to restore the robust assurance needed to underpin good governance and accountability.

For the full statement, see Written statements - Written questions, answers and statements - UK Parliament.